

## December 2008 Newsletter

### Interest Rates Cut by 1.00% - New Cash Rate 4.25%

The Reserve Bank of Australia announced a decrease in the cash rate of 1 percent today. This takes the cash rate from 5.25% down to 4.25%.

#### INTEREST RATE FORECASTS:

Prior to this announcement, below is what some commentators and economists were forecasting before today's decision and also what they think the cash rate will do in into 2009....

- NAB chief economist, Alan Oster expects the RBA to lower rates by another 0.75 percentage points in today decision. "This will be followed by another cut of 50 basis points in February and a further 25 basis point reduction in March to take the cash rate to 3.75 per cent," he said.
- Debt futures market were tipping the RBA to cut the cash rate by a massive 125 basis points today
- ABN Amro chief economist Kieran Davies was expecting a smaller 75 basis point rate cut today
- The official cash interest rate, targeted by the central bank in its monetary policy actions, is forecast to fall to its lowest level since early 1960 by Easter next year. Debt futures markets are on Monday pointing to a cash rate of 2.75 per cent by April, down from 5.25 per cent at present.

Since September the RBA has reduced the cash rate by 3.00% from the high of 7.25% back in March of this year.

We are yet to see just how much the Bank's will pass on to us over the coming weeks, but if they pass on only 0.75% then over the past 4 months they have passed on around 2.55%. So for every \$100,000 that someone has borrowed that equates to a saving of \$212.50 per month back in to the household budget.

If you also consider the average household is now saving an additional \$75 per week on petrol, since the July high oil prices, the combined savings will be hundreds of dollars per month, depending on the size of some mortgages.

Obviously the decision today is geared to getting the consumer spending again in an effort to keep the economy in the black and also keep unemployment down, which is critical for us all. So over the Christmas / New Year break, if there is a spare dollar or two in the kitty then the government wants you to spend it for all our sakes!

## Fixed Rate Loans

For those of us who took credence on the early positive economic news and market commentary about interest rates heading towards 12% and locked in all or part of their mortgage into Fixed rate, the reducing cash rate is of little good news, as the Lender's technical break cost may all but shallow the potential savings that might be had.

Here at Empower Wealth we are about educating our clients on the 'what if' scenario's. Now given the experts got it so wrong earlier this year, we really don't know how low interest rates are going to go. However to help you with this financial calculation, we have developed a very basic 'rule of thumb spreadsheet' as a 'guide only' for you to use to see if there might be some saving or not. If you are interested in receiving a copy of this calculator, simply reply to this newsletter and we will be sure to send it out to you.

It's your decision and a tough call to make, so we hope this calculator give you a better picture, even if it's a guide only!

(Note: you must understand that these technical break fees can and do change when Lenders change correlating fixed and variable rates, as each lender has their own calculations. As a general rule, if they move their rates lower the break costs are higher!)

## New Property Selection Software

Empower Wealth is very pleased to release a new software program, designed exclusively in-house to help consumers buy better property. The new Outperform Property Selection Program is a simple, yet effective program aimed at helping its users to better analyse what's important to them in regards to the selection of an 'outperform' property. The program is designed to assist the user to undertake research based on a 'Top Down - 3 Step Approach', to identify suitable properties in superior neighbourhoods for purchase. This approach incorporates a multi-attribute decision making matrix analysis tool to assist the users to question their property needs in detail and customise the tools to provide decision outcomes on which to act.

For more information, please click on this link..... <http://www.empowerwealth.com.au/software>

## Investment Survey.... Preliminary Results

The preliminary results from last month's Investment Survey are in! Thank you to all of those who participated. It certainly helped us gain a better understanding of your thoughts on investment and fees with some surprising results...

- Only 62% of participants do their own research when investing.
- 75% of participants did not know that Financial Planners are not licensed or qualified to provide advice on direct property investing and therefore do not recommend it as an investment option
- 50% of participants thought that a 2% (\$20,000) fee for an organisation who helped them increase their net wealth by over a million dollars was a reasonable reward

If you have not participated in the survey yet, you can do so now by following this link [http://www.surveymonkey.com/s.aspx?sm=2Uo7VrLiDOmwcUmPxos4GA\\_3d\\_3d](http://www.surveymonkey.com/s.aspx?sm=2Uo7VrLiDOmwcUmPxos4GA_3d_3d)

It takes less than 3 minutes to complete and all responses are completely anonymous.

## Directors Comment

Will property values be going down next year?

### **My Power of One Theory.....**

Given residential property is where I make the majority of my own family's personal wealth, I thought my final comment for 2008 would be my view on this. As a multiple property owner and active investor, any talk of my investments suffering a downward fall in value is something I, along with my clients need to pay careful attention to.

My understanding when it comes to investing is all about 'informed & educated' decision making, whether that decision is being made by you or a professional/s to which you have entrusted this task to. These decisions, if to be successful, should be based on detailed knowledge to ensure a positive outcome. However some ill equipped and ill informed investors (unfortunately too many for my liking) base decisions on simple or what I call 'generalised' data, failing to use the 'Power of One' theory.

Before I highlight the Power of One, let me explain the dangers of using 'generalised' data or the even greater danger of believing in 'generalised' data.

Firstly 'generalised' data is economic information that is collated into a grouping, or summary. In property terms this usually relates to median values of houses or units. For example, median value of property is set to drop by over 20% next year.

Let's assume that of the 7 million plus homes in Australia that the collective value did drop by 20%, does that mean that your house has dropped automatically by this figure – NO not at ALL! Yet, the masses start to believe this and make decisions based on this and react with a herd like manner.

You can understand why am I am always sceptical about these types of 'generalised' articles & reports because they comment about the overall market and not about the specific properties I own. So decisions that are based on 'generalised' information and data alone could lead to uninformed and dangerous investing and should be avoided at all costs.

The Power of One is all about buying one great property at a time, focusing in on property within a localised neighbourhood with high demand for which your budget will accommodate. The goal is to buy that ONE property that outperforms the market during both slow and booming economies. Therefore ensuring you are not affected by such 'generalised' data. So if properties in the outer suburbs decrease in value, causing the overall City's median price to drop, yet your own superior properties hold or possibly increase in value over this time, what do you care, as your investment has outperformed.

The further good news about this theory is that there are several of these properties around in one shape or another at any one time around each City. They are the classic homes, in high demand locations, that you or your potential renters want to live in. They are the properties that you know will attract strong interest when they come up for sale or lease.

When it comes to buying property in 2009, don't get caught up in the 'generalisation' of property commentary. Anyone can buy a property that increases in value when the market is going up, but it's those people who buy properties in the quieter or uncertain times, using the Power of One theory, that create great wealth for themselves over the longer term. If you are looking to get into the market in 2009, because you believe you will get a better buy, then I question the neighbourhood and location you are considering buying in. If you think the best houses or units in these areas are going to actually reduce in value significantly, then maybe its not the best location to buy in. *(This comment naturally does not factor in people buying their first home in an area they wish to buy in to be closer to their friends and family, that is a lifestyle purchase not an investment).*

So to answer my own question about whether property will go down in 2009, maybe it will in a generalised sense but, for me in using the theory I can only buy one at a time and I will make it a quality purchase in a quality or developing quality location then do I really care if the value of property in some outer suburbs of each city drop by 20% next year?

Merry Christmas  
Ben Kingsley & the Empower Wealth Team

Finally, on behalf of the entire Empower Wealth team, I would like to take this opportunity to wish you, your family and loved ones, the very best for the festive season. We hope it's a safe, happy and enjoyable one for you all. We look forward to staying in touch in 2009 and beyond as opportunities are plentiful!

Warmest Wishes.....

**Ben Kingsley & The Empower Wealth Team**

Education, knowledge and action leads to your empowerment!

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